



Stephen S. Melnikoff
Vice President -
Federal Regulatory

SBC Communications Inc.
1401 I Street, N.W.
Suite 1100
Washington, D.C. 20005
Phone 202 326-8885
Fax 202 408-4806

July 26, 1996

EX PARTE OR LATE FILED

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL

RECEIVED
JUL 26 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Implementation of the Local Competition Provisions in the
Telecommunications Act of 1996, CC Docket No. 96-98

Dear Mr. Caton:

In accordance with the Commission's rules governing ex parte presentations, please be advised that the attached electronic mail ("e-mail") message was transmitted via Internet to Commissioner Rachelle B. Chong, Commissioner Susan Ness, James L. Casserly, Senior Legal Advisor to Commissioner Ness, and Rudolfo M. Baca, Legal Advisor to Commissioner Quello, from Patricia Diaz Dennis of SBC Communications Inc. (SBC).

The message reiterates SBC's position in the above-referenced proceeding. It was sent on July 25, 1996 and is being filed today as a result of the late hour of the transmission.

Please stamp and return the provided copy to confirm your receipt. Do not hesitate to contact me should you have any questions.

Sincerely,

Attachment

cc: The Hon. Rachelle Chong
The Hon. Susan Ness
Mr. James L. Casserly
Mr. Rudolfo Baca

No. of Copies rec'd
List A B C D E

083

Author: pdennis@ixchg.corp.sbc.com (Patricia Dennis) at Internet

Date: 7/25/96 2:13 PM

Priority: Normal

TO: Donna Stapleton at PACTEL5

Subject: UNBUNDLING AND ACCESS CHARGES

----- Message Contents -----

Commissioner--know you are up to your eyeballs in alligators, but I hope you will consider the following in the interconnection docket (I regret my duties in San Francisco did not allow me to make these points in person and I appreciate you reading through this notwithstanding all the demands for your attention--many thanks.

There are two incorrect assumptions the FCC may be entertaining re use of unbundled elements to avoid access charges:

1. "The right price is the right answer"--or the LECs are not harmed if unbundled elements are cost-based.

However, REVENUES VARY SIGNIFICANTLY BETWEEN CUSTOMERS and the IXC's will target heavy volume long distance customers first. This asymmetry will mean there will be significant pressure on local rates.

2. "We'll soon fix access charges and universal service issues and these proceedings will resolve any problems"

However, the "soon" will not be soon enough because the IXC's will enter the local market using unbundled elements VERY QUICKLY for the following reasons:

IXC's have:

- Large existing customer base
- Extensive customer information
- Experience as sophisticated providers
- Strong brand name recognition
- Well-established Marketing Operations

Additionally, as we both know all too well, dockets at the Commission do not progress as expeditiously as we'd like and the results are uncertain. The access charge and universal service reform proceedings will be controversial, contested and subjected to political pressure. Timing will be uncertain and implementation will be delayed---assessment, payment, distribution, verification and other mechanisms must be established before any reforms become fully effective. I also assume there will be some sort of phase-in period for major changes as was the case with subscriber line charges to ensure there is no rate shock.

SOLUTION SOLUTION SOLUTION SOLUTION

A transition period is needed and all three rulemakings (interconnection, access charge reform and universal service) should be congruent. Transition periods have been used when major regulatory

-pricing changes are at stake. They prevent rate shock for customers, disequilibrium in the market and harm to one class of providers.

Examples of previous successful transitions:

Subscriber Line Charges--phased-in over four years

Discount on access charges for "new" IXCs--phased-out over about 5 years as equal access was phased-in

Embedded CPE and Inside Wire Investment--phased-out of regulated rates over about six years.

Finally--vertical services should be priced at retail rates less avoided costs--states have traditionally used high contributions from vertical services to minimize local prices for "essential services"

Vertical services are as important as access charges as a source for subsidy for local rates. (For eg. Southwestern Bell's revenues for vertical services was about \$16 MILLION DOLLARS and the CCL revenues by comparison were \$40 MILLION FOR BOTH INTER AND INTRASTATE in 1995) There is no adverse impact on competition because vertical services will be available to competitors as resale services at wholesale prices. Competitors will be able to profitably include such services in their packages to customers.

If you do decide to treat vertical services as network elements, the FCC should not prescribe a methodology that restricts states in pricing vertical services. These services have been regulated exclusively at the state level and LRIC pricing for vertical services will have a dramatic impact on local rates and universal service.